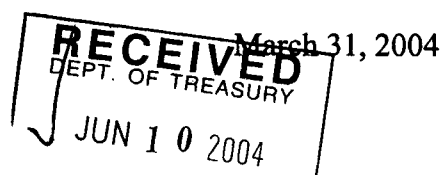


Village of Pentwater

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**



AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF PENTWATER	County OCEANA
Audit Date March 31, 2004	Opinion Date May 21, 2004	Date Accountant Report Submitted to State: June 7, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Countries and Local Units of Government in Michigan, as required by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We have certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|------------------------------|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

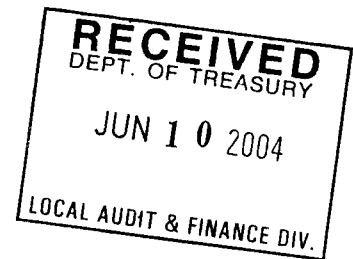
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC			
Street Address 500 TERRACE PLAZA, P.O. BOX 999		City Muskegon	State Michigan
Accountant Signature <i>Matthew D. Carter, C.P.A. for Brickley DeLong, PLLC</i>		ZIP 49443	

BRICKLEY DeLONG
CERTIFIED PUBLIC ACCOUNTANTS

May 21, 2004

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449



In planning and performing our audit of the general purpose financial statements of the Village of Pentwater for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control. However, we noted a certain matter involving internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village of Pentwater's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. We have attached a summary of the reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable condition referred to above is not believed to be a material weakness.

This report is intended for the information and use of the Village of Pentwater, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, P.C.

REPORTABLE CONDITION

Recommendation 1: Cash receipts monitoring procedures should be improved for the Marina launch ramp.

During our inquiries of management and council members, we noted a weakness in the controls surrounding the cash receipts function of the launch ramp. Although pre-numbered envelopes are available for payment of fees by ramp users, the vehicles are only sporadically checked for compliance. The ramp is unattended from six to eight hours per day. Lack of monitoring of the vehicles or lockbox during the unattended hours provides opportunity for users to neglect paying their launch fees.

The establishment of procedures to monitor launch ramp activity would ensure the collection of appropriate revenues of the Village. Such monitoring procedures might include the police to include the launch ramp on their rounds, to review vehicles for evidence of the payment envelope flap on their dashboard, and periodic review of envelopes in the lockbox by the police to verify envelopes are not submitted empty. Violators should be ticketed.

Village of Pentwater

LIST OF ELECTED AND APPOINTED OFFICIALS

March 31, 2004

ELECTED OFFICIALS

Village Council President Charles E. Bigelow

Village Council **Juanita Pierman**
Alvin Docter
Marilyn Sullivan
Jared Griffis
James Alfredson
Don Palmer

APPOINTED OFFICIALS

Village Manager..... Tim Taylor

Village Clerk/Treasurer..... Frances A. Tomczak

Deputy Village Clerk/Treasurer..... Cynthia Maguire

Village AccountantDan McDonald

Police Chief.....Jack Rought

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BRICKLEY DeLONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

May 21, 2004

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the accompanying general purpose financial statements of the Village of Pentwater as of and for the year ended March 31, 2004 as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Pentwater's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Pentwater as of March 31, 2004 and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BRICKLEY DeLONG

Village Manager and Members
of the Village Council

May 21, 2004

Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2004 on our consideration of the Village of Pentwater's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements as provided on pages 28 through 35, inclusive, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Pentwater. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Brickley DeLong, P.L.C.

Village of Pentwater
COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS
 March 31, 2004

ASSETS

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		Account Groups	
	General	Special revenue		Debt service	Capital projects	Enterprise	Internal service	Trust and Agency	General Fixed Assets	General Long-Term Debt
Cash and investments	\$ 437,601	\$ 429,719	\$ 826	\$ 79,396	\$ 826	\$ 927,923	\$ 70,920	\$ 500	\$ -	\$ -
Accounts receivable	19,532	30	-	-	-	88,679	-	-	-	-
Due from other governmental units	27,215	19,867	-	2,214	-	-	-	-	-	-
Inventories	-	-	-	-	-	20,336	-	-	-	-
Prepaid expenditures	2,700	435	-	-	-	1,406	199	-	-	-
Advances to other funds	198,207	-	-	-	-	-	-	-	-	-
Restricted assets	-	-	-	-	-	156,469	-	-	-	-
Property, plant and equipment—at cost, net of accumulated depreciation	-	-	-	-	-	2,323,280	185,964	-	1,662,575	-
Amount available in debt service funds	-	-	-	-	-	-	-	-	-	81,610
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	-	824,447
	<u>\$ 685,255</u>	<u>\$ 450,051</u>	<u>\$ 826</u>	<u>\$ 81,610</u>	<u>\$ 826</u>	<u>\$ 3,518,093</u>	<u>\$ 257,083</u>	<u>\$ 500</u>	<u>\$ 1,662,575</u>	<u>\$ 906,057</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUPS—CONTINUED
 March 31, 2004

LIABILITIES AND FUND EQUITY

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups	
	General	Special revenue	Debt service	Capital projects	Enterprise		General Fixed Assets	General Long- Term Debt
LIABILITIES								
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ 20,000	\$ -	\$ -	\$ -
Accounts payable	9,382	483	-	-	36,311	-	-	-
Accrued liabilities	21,254	2,178	-	-	6,054	-	-	-
Customer deposits	-	300	-	-	-	-	-	-
Deferred revenues	2,260	109,384	-	-	37,395	-	-	-
Due to other governmental units	-	-	-	-	-	500	-	-
Advances from other funds	-	-	-	-	198,207	-	-	-
Long-term obligations	-	-	-	-	460,000	-	-	906,057
	<u>32,896</u>	<u>112,345</u>	<u>-</u>	<u>-</u>	<u>757,967</u>	<u>500</u>	<u>-</u>	<u>906,057</u>
FUND EQUITY								
Investment in general fixed assets	-	-	-	-	-	-	1,662,575	-
Contributed capital	-	-	-	-	1,349,801	-	-	-
Retained earnings	-	-	-	-	-	-	-	-
Reserved	-	-	-	-	156,469	-	-	-
Unreserved	-	-	-	-	1,253,856	-	-	-
Fund balances	-	-	-	-	173,274	-	-	-
Reserved for prepaid expenditures	2,700	435	-	-	-	-	-	-
Reserved for advances	198,206	-	-	-	-	-	-	-
Reserved for debt service	-	-	81,610	-	-	-	-	-
Reserved for construction	-	-	-	826	-	-	-	-
Reserved for appropriations	62,367	2,143	-	-	-	-	-	-
Designated for industrial park	21,140	-	-	-	-	-	-	-
Designated for improvements	-	1,078	-	-	-	-	-	-
Undesignated	367,946	334,050	-	-	-	-	-	-
	<u>652,359</u>	<u>337,706</u>	<u>81,610</u>	<u>826</u>	<u>2,760,126</u>	<u>255,462</u>	<u>1,662,575</u>	<u>-</u>
	<u>\$ 685,255</u>	<u>\$ 450,051</u>	<u>\$ 81,610</u>	<u>\$ 826</u>	<u>\$ 3,518,093</u>	<u>\$ 257,083</u>	<u>\$ 1,662,575</u>	<u>\$ 906,057</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES—ALL GOVERNMENTAL FUND TYPES**

Year ended March 31, 2004

	General	Special revenue	Debt service	Capital projects
Revenues				
Taxes	\$ 528,324	\$ 37,559	\$ 47,335	\$ -
Licenses and permits	9,076	-	-	-
Intergovernmental revenues—state	87,566	102,774	-	-
Charges for services	79,364	114,676	-	-
Fines and forfeits	3,038	-	-	-
Investment income	15,414	3,429	857	-
Other	17,411	4,626	384	-
	<u>740,193</u>	<u>263,064</u>	<u>48,576</u>	<u>-</u>
Expenditures				
Current				
Legislative	51,370	-	-	-
General government	115,107	-	-	20,392
Public safety	223,184	76,307	-	-
Public works	182,543	108,951	-	-
Culture and recreation	67,789	-	-	-
Other governmental functions	16,817	18,280	-	-
Capital outlay	40,940	21,860	-	-
Debt service	-	-	-	-
Principal	-	-	30,000	-
Interest and fees	-	-	52,503	-
	<u>697,750</u>	<u>225,398</u>	<u>82,503</u>	<u>20,392</u>
Excess of revenues over (under) expenditures	42,443	37,666	(33,927)	(20,392)
Other financing sources (uses)				
Operating transfers in	-	-	-	20,000
Operating transfers out	(60,000)	-	-	-
	<u>(60,000)</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(17,557)	37,666	(33,927)	(392)
Fund balances at April 1, 2003	669,916	300,040	115,537	1,218
Fund balances at March 31, 2004	<u>\$ 652,359</u>	<u>\$ 337,706</u>	<u>\$ 81,610</u>	<u>\$ 826</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES—
BUDGET AND ACTUAL—GENERAL AND SPECIAL REVENUE FUNDS
Year ended March 31, 2004

	General Fund		Over (under)	Special Revenue Funds		
	Amended budget	Actual	amended budget	Amended budget	Actual	Over (under) amended budget
Revenues						
Taxes	\$ 530,654	\$ 528,324	\$ (2,330)	\$ 35,120	\$ 37,559	\$ 2,439
Licenses and permits	6,100	9,076	2,976	-	-	-
Intergovernmental revenues—state	86,300	87,566	1,266	87,276	102,774	15,498
Charges for services	79,750	79,364	(386)	119,835	114,676	(5,159)
Fines and forfeits	3,000	3,038	38	-	-	-
Investment income	7,500	15,414	7,914	3,190	3,429	239
Other	14,075	17,411	3,336	1,435	4,626	3,191
	<u>727,379</u>	<u>740,193</u>	<u>12,814</u>	<u>246,856</u>	<u>263,064</u>	<u>16,208</u>
Expenditures						
Current						
Legislative	53,050	51,370	(1,680)	-	-	-
General government	139,803	115,107	(24,696)	-	-	-
Public safety	236,814	223,184	(13,630)	92,435	76,307	(16,128)
Public works	200,451	182,543	(17,908)	131,590	108,951	(22,639)
Culture and recreation	71,040	67,789	(3,251)	-	-	-
Other governmental functions	21,513	16,817	(4,696)	27,912	18,280	(9,632)
Capital outlay	42,455	40,940	(1,515)	22,400	21,860	(540)
	<u>765,126</u>	<u>697,750</u>	<u>(67,376)</u>	<u>274,337</u>	<u>225,398</u>	<u>(48,939)</u>
Excess of revenues over (under) expenditures	(37,747)	42,443	80,190	(27,481)	37,666	65,147
Other financing sources (uses)						
Operating transfers out	(123,000)	(60,000)	63,000	-	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	\$ (160,747)	(17,557)	\$ 143,190	\$ (27,481)	37,666	\$ 65,147
Fund balances at April 1, 2003					300,040	
Fund balances at March 31, 2004		<u>\$ 652,359</u>			<u>\$ 337,706</u>	

The accompanying notes are an integral part of this statement.

Village of Pentwater
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS—ALL PROPRIETARY FUND TYPES**
 Year ended March 31, 2004

	Enterprise	Internal service
Operating revenues		
Intergovernmental revenues—state	\$ 5,495	\$ -
Charges for services	459,530	84,598
Other	6,427	306
	<u>471,452</u>	<u>84,904</u>
Operating expenses		
Administration	93,312	-
Operations	247,574	59,236
Depreciation	104,684	26,330
	<u>445,570</u>	<u>85,566</u>
Operating income (loss)	25,882	(662)
Non-operating revenues (expenses)		
Investment income	12,990	732
Interest expense	(39,521)	(1,098)
	<u>(26,531)</u>	<u>(366)</u>
Income (loss) before operating transfers	(649)	(1,028)
Other financing sources		
Operating transfers in	40,000	-
NET INCOME (LOSS)	39,351	(1,028)
Depreciation charged to contributed capital	50,273	-
Retained earnings at April 1, 2003	1,320,701	174,302
Retained earnings at March 31, 2004	<u>\$ 1,410,325</u>	<u>\$ 173,274</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
COMBINED STATEMENT OF CASH FLOWS—ALL PROPRIETARY FUND TYPES
Year ended March 31, 2004

	Enterprise	Internal service
Operating activities		
Operating income (loss)	\$ 25,882	\$ (662)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	104,684	26,330
Funds from operations	<u>130,566</u>	<u>25,668</u>
(Increase) decrease in operating assets		
Accounts receivable	4,371	16
Due from other governmental units	3,294	-
Inventories	(3,459)	-
Prepaid expenditures	(290)	(64)
Increase (decrease) in operating liabilities		
Accounts payable	(4,902)	31
Accrued liabilities	(194)	233
Customer deposits	(1,350)	-
Deferred revenues	<u>(1,278)</u>	<u>-</u>
Net cash provided by operating activities	<u>126,758</u>	<u>25,884</u>
Capital and related financing activities		
Contributed capital	36,312	-
Decrease in advances from other funds	(8,481)	-
Principal payments on long-term debt	(20,000)	(22,367)
Property, plant, and equipment purchases	(79,607)	(20,568)
Interest expense	(39,521)	(1,098)
Operating transfers in	<u>40,000</u>	<u>-</u>
Net cash used for capital and related financing activities	<u>(71,297)</u>	<u>(44,033)</u>
Investing activities		
Investment income	<u>12,990</u>	<u>732</u>
INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>68,451</u>	<u>(17,417)</u>
Cash and investments at April 1, 2003	1,015,941	88,337
Cash and investments at March 31, 2004	<u>\$ 1,084,392</u>	<u>\$ 70,920</u>
Cash and investments at March 31, 2004 consist of:		
Operating	\$ 927,923	\$ 70,920
Restricted	<u>156,469</u>	<u>-</u>
	<u>\$ 1,084,392</u>	<u>\$ 70,920</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Pentwater (Village) are prepared in accordance with generally accepted accounting principles. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Reporting Entity

The Village of Pentwater is a municipal corporation governed by a seven-member Village Council and is administrated by a Village manager appointed by the Village Council.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Village and its component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Each blended component unit has a March 31 fiscal year end. There were no discretely presented component units at March 31 fiscal year end.

Blended component units

Downtown Development Authority. The Village appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt (if any) remains with the Village. The Authority is reported as a special revenue fund.

Pentwater Friendship Center. The Village approves all board members and annual budgets for the Friendship Center, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Friendship Center is reported as a special revenue fund.

Pentwater Fire Department. The Village approves all board members and annual budgets for the Fire Department, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Fire Department is reported as a special revenue fund.

Fund Accounting

The accounts of the Village are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device used to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Fund Accounting—Continued

The following fund categories (further divided by fund type) and account groups are used by the Village:

Governmental Funds

Governmental funds are used to account for the Village's general government activities. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects). The debt service funds account for the servicing of general long-term debt not being financed by proprietary funds. The capital projects funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or trust funds.

Proprietary Funds

Proprietary funds account for activities of the Village similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. Enterprise funds are used to account for those operations that provide services to the public while internal service funds account for operations on a cost-reimbursement basis that provide services to other departments or agencies of the Village or to other governments.

Account Groups

The general fixed assets account group is used to account for fixed assets not accounted for in proprietary funds. The general long-term debt account group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund types are presented using the flow of current financial resources measurement focus. With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Village considers all revenues available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Property taxes, franchise taxes, licenses, interest, and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Village and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Proprietary funds are accounted for on the flow of economic resources measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Assets, Liabilities and Equity

a. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition. All short-term cash surpluses are maintained in a cash pool and allocated to each fund based on month-end deposit and investment balances.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools, and certain mutual funds.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Equity—Continued

b. Restricted Assets

Village Council actions and bond covenants of the Village's enterprise funds require portions of the debt proceeds as well as other resources to be set aside for various purposes. These amounts are reported as restricted assets and reserved retained earnings.

c. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before September 15. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of September 15 are turned over by the Village to the County for collection. The County advances the Village all of these delinquent real property taxes. Collection of delinquent personal property taxes as of September 15 remain the responsibility of the Village Treasurer. Since substantially all Village property taxes levied are current receivables, tax revenues are recognized when levied.

The 2003 taxable value of property in the Village and Downtown Development Authority is \$57,903,265 and \$5,122,300, respectively, on which ad valorem taxes levied consisted of: 9.16 mills for the General Fund, 0.23 mills for the Local Streets, 0.24 mills for the Friendship Center, .82 mills for the Village Improvement Fund, and 2 mills for the Downtown Development Authority. These amounts are recognized in the respective funds on the financial statements.

d. Inventories and Prepaid Expenditures

Inventories of proprietary funds are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Equity—Continued

d. Inventories and Prepaid Expenditures—Continued

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. The prepaid expenditures (if any) recorded in the governmental fund types do not reflect current appropriable resources, and thus, an equivalent portion of fund balance is reserved.

e. Property, Plant and Equipment

Property, plant and equipment used in governmental fund types of the Village are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary funds of the Village are recorded at cost. Property and equipment donated to these proprietary fund type operations are recorded at their estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated and amortized in the proprietary funds of the Village utilizing the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Equipment	5-20
Water system	15-50
Sewage system	25-100
Docks	10

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Equity—Continued

f. Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination or retirement, police are paid 100 percent and all others are paid 50 percent of their accrued sick days. Sick leave is accumulated at the rate of one day per month of employment. Employees, other than police, may accrue unused paid sick days up to a maximum of 90 days. Police may accrue unused paid sick days up to a maximum of 120 days.

The sick leave liability is recorded in the general long-term debt account group. Since employees' time is allocated to proprietary funds by actual time worked, no amounts are considered attributable to those funds.

g. Long-Term Obligations

The Village reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as an other financing source net of the applicable premium or discount. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

h. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The proprietary funds' contributed capital represents equity acquired through capital grants and capital contributions from developers, customers, or other funds.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
March 31, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Equity—Continued

i. Combining Statements

The Village operates a single internal service fund and capital projects fund; therefore, no combining statement for those groups of funds is presented.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except capital projects and debt service funds. Capital projects funds adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function, and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE C—DEPOSITS AND INVESTMENTS

Deposits

The Village's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of March 31, 2004, the Village's carrying amount of deposits was \$598,045, and the bank balance was \$606,335. Of the bank balance, \$108,155 was covered by Federal Depository Insurance. The remaining \$498,180 was uninsured and uncollateralized.

Investments

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or the securities held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Village's name.

	<u>Category</u>			<u>Total</u>	<u>Market value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of deposit	\$420,640	\$1,084,669	\$ -	\$ 1,505,309	\$ 1,505,309

NOTE D—INTERFUND RECEIVABLES AND PAYABLES

The interfund receivables and payables consist of the following at March 31, 2004:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Interfund payables</u>
<i>Advances to/from other funds</i>		
General Fund	\$ 198,207	\$ -
Enterprise funds		
Marina Fund	-	55,321
Water Fund	-	142,886
	\$ 198,207	\$ 198,207

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE E—RESTRICTED ASSETS

Restrictions are placed on assets by bond ordinance and Village Council action. At March 31, 2004, cash is restricted as follows:

Enterprise Funds

Sewer Fund

Bond and interest redemption fund	\$ 29,204
Replacement fund	62,838
Junior lien bond reserve fund	<u>64,427</u>
Total restricted assets	<u>\$ 156,469</u>

NOTE F—PROPERTY, PLANT AND EQUIPMENT

Summary of Property, Plant and Equipment

Property, plant and equipment consist of the following at March 31, 2004:

	<u>Enterprise funds</u>	<u>Internal service fund</u>	<u>General Fixed Assets Account Group</u>
Land	\$ 254,190	\$ -	\$ 47,289
Building and improvements	458,461	-	598,065
Equipment	82,052	462,342	1,017,221
Water system	760,174	-	-
Sewer system	2,621,332	-	-
Docks	183,403	-	-
Construction in progress	<u>40,000</u>	<u>-</u>	<u>-</u>
	4,399,612	462,342	1,662,575
Less accumulated depreciation	<u>(2,076,332)</u>	<u>(276,378)</u>	<u>-</u>
	<u>\$ 2,323,280</u>	<u>\$ 185,964</u>	<u>\$ 1,662,575</u>

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE F—PROPERTY, PLANT AND EQUIPMENT—Continued

Summary of Changes in General Fixed Assets

Changes in the components of General Fixed Assets Account Group are summarized as follows:

	Balance April 1 2003	Year ended March 31, 2004		Balance March 31, 2004
		<u>Additions</u>	<u>Deletions</u>	
Land	\$ 86,896	\$ -	\$ 39,607	\$ 47,289
Buildings and improvements	557,125	40,940	-	598,065
Equipment	<u>989,861</u>	<u>27,360</u>	<u>-</u>	<u>1,017,221</u>
	<u>\$1,633,882</u>	<u>\$ 68,300</u>	<u>\$ 39,607</u>	<u>\$1,662,575</u>

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Debt

The following is a summary of transactions in long-term debt for the year:

	<u>Enterprise funds</u>	<u>Internal service fund</u>	<u>General Long-Term Debt Account Group</u>	<u>Total</u>
Long-term debt at April 1, 2003	\$ 500,000	\$ 22,367	\$ 926,682	\$1,449,049
Additions	-	-	9,375	9,375
Retirements	<u>(20,000)</u>	<u>(22,367)</u>	<u>(30,000)</u>	<u>(72,367)</u>
Long-term debt at March 31, 2004	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 906,057</u>	<u>\$1,386,057</u>

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE G—LONG-TERM DEBT—Continued

Summary of Long-Term Debt

Long-term debt at March 31, 2004 is comprised of the following:

	Balance April 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	Balance March 31, <u>2004</u>
<i>Enterprise Funds</i>				
\$705,000 Sewage Disposal Junior Lien Revenue Bonds of 1986 due in annual installments of \$15,000 to \$25,000 through April 2025; plus interest at 6.38%	\$ <u>500,000</u>	\$ <u> </u> -	\$ <u>20,000</u>	\$480,000
Less current maturities				(20,000)
				<u>\$460,000</u>
<i>Internal Service Fund</i>				
4.91% Capital lease payable in annual installments of \$23,466 including interest; final payment made February 2004	\$ <u>22,367</u>	\$ <u> </u> -	\$ <u>22,367</u>	\$ <u> </u> -
<i>General Long-Term Debt Account Group</i>				
\$990,000 General Obligation bonds of 1996 due in annual installments of \$30,000 to \$100,000 through April 2017; plus interest at rates varying from 6% to 6.05%	\$880,000	\$ -	\$ 30,000	\$850,000
Compensated absences	<u>46,682</u>	<u>9,375</u>	<u> </u> -	<u>56,057</u>
	<u>\$926,682</u>	<u>\$ 9,375</u>	<u>\$ 30,000</u>	<u>\$906,057</u>

The Village was in compliance in all material respects with all the revenue bond ordinances at March 31, 2004.

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE G—LONG-TERM DEBT—Continued

Summary of Annual Requirements

The annual requirements to pay debt service, including interest of \$952,349 on the long-term debt outstanding at March 31, 2004, are as follows:

<u>Year ending March 31</u>	<u>Enterprise funds</u>	<u>General Long-Term Debt Account Group</u>	<u>Total</u>
2005	\$ 50,600	\$ 80,200	\$ 130,800
2006	54,300	83,300	137,600
2007	52,700	86,000	138,700
2008	51,100	83,600	134,700
2009	49,500	90,900	140,400
Thereafter	<u>746,781</u>	<u>909,425</u>	<u>1,656,206</u>
	<u>\$ 1,004,981</u>	<u>\$1,333,425</u>	<u>\$ 2,338,406</u>

NOTE H—OTHER INFORMATION

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the past three years.

Segment Information for the Enterprise Funds

The Village of Pentwater maintains enterprise funds which provide water, sewer, and marina services. Segment information for the year ended March 31, 2004 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Total enterprise funds</u>
Operating revenues	\$ 219,059	\$ 167,583	\$ 84,810	\$ 471,452
Depreciation	67,035	30,332	7,317	104,684
Operating income (loss)	558	36,046	(10,722)	25,882
Net income (loss)	(23,342)	34,823	27,870	39,351
Current capital contributions	-	-	39,607	39,607

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE H—OTHER INFORMATION—Continued

Segment Information for the Enterprise Funds—Continued

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Total enterprise funds</u>
Credit arising from transfer of depreciation to contributed capital	\$ 45,884	\$ 2,069	\$ 2,320	\$ 50,273
Net working capital	522,157	382,798	33,629	938,584
Total assets	2,436,846	641,266	439,981	3,518,093
Bonds and other long-term liabilities payable from operating revenues	480,000	142,886	55,321	678,207
Total equity	1,918,932	494,654	346,540	2,760,126

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Village expects such amounts, if any, to be immaterial.

Commitments

The Village has a contract agreement for a project as of March 31, 2004, as follows:

	<u>Spent to date</u>	<u>Remaining commitment</u>
Marina improvements	\$ <u>40,000</u>	\$ <u>40,000</u>

NOTE I—PENSION PLAN

Plan Description. The Village of Pentwater is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village of Pentwater. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Pentwater
 327 S. Hancock
 Pentwater, Michigan 49449

Village of Pentwater
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS—CONTINUED
 March 31, 2004

NOTE I—PENSION PLAN—Continued

Funding Policy. Village employees contribute 3 percent of their earnings to the plan. The Village is required to contribute at an actuarially-determined rate; the current rate is 0.0 percent of annual covered payroll.

Annual Pension Cost. For the year ended March 31, 2004, the Village's annual pension cost of \$5,286 for the plan was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0.0 percent to 4.2 percent per year, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll.

Three Year Trend Information

(Dollar amounts as thousands)

<u>Fiscal year ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
3/31/02	\$ -	100%	\$ -
3/31/03	-	100	-
3/31/04	5,286	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/00	\$830,064	\$735,782	\$ (94,282)	113%	\$284,094	(33.2)%
12/31/01	864,305	785,136	(79,619)	110	335,279	(23.7)
12/31/02	863,278	895,546	32,268	96	352,324	9.2

COMBINING STATEMENTS

Village of Pentwater
Special Revenue Funds
COMBINING BALANCE SHEET
March 31, 2004

ASSETS

	Combined	Major Street	Local Street	Downtown Development Authority	Fire	Friendship Center	Memorial Fund
Cash and investments	\$ 429,719	\$ 169,346	\$ 58,436	\$ 25,612	\$ 152,159	\$ 23,088	\$ 1,078
Accounts receivable	30	30	-	-	-	-	-
Due from other governmental units	19,867	10,775	7,575	886	-	631	-
Prepaid expenditures	435	145	237	-	-	53	-
	<u>\$ 450,051</u>	<u>\$ 180,296</u>	<u>\$ 66,248</u>	<u>\$ 26,498</u>	<u>\$ 152,159</u>	<u>\$ 23,772</u>	<u>\$ 1,078</u>

LIABILITIES AND FUND BALANCES

Accounts payable	\$ 483	\$ 179	\$ -	\$ -	\$ 304	\$ -	\$ -
Accrued liabilities	2,178	596	1,083	-	-	499	-
Customer deposits	300	-	-	-	-	300	-
Deferred revenue	109,384	-	-	-	109,024	360	-
	<u>112,345</u>	<u>775</u>	<u>1,083</u>	<u>-</u>	<u>109,328</u>	<u>1,159</u>	<u>-</u>
Fund balances							
Reserved for prepaid expenditures	435	145	237	-	-	53	-
Reserved for appropriations	2,143	-	2,143	-	-	-	-
Designated for improvements	1,078	-	-	-	-	-	1,078
Undesignated	334,050	179,376	62,785	26,498	42,831	22,560	-
	<u>337,706</u>	<u>179,521</u>	<u>65,165</u>	<u>26,498</u>	<u>42,831</u>	<u>22,613</u>	<u>1,078</u>
	<u>\$ 450,051</u>	<u>\$ 180,296</u>	<u>\$ 66,248</u>	<u>\$ 26,498</u>	<u>\$ 152,159</u>	<u>\$ 23,772</u>	<u>\$ 1,078</u>

Village of Pentwater
Special Revenue Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Year ended March 31, 2004

	Combined	Major Street	Local Street	Downtown Development Authority	Fire	Friendship Center	Memorial Fund
Revenues							
Taxes	\$ 37,559	\$ -	\$ 13,409	\$ 10,245	\$ -	\$ 13,905	\$ -
Intergovernmental revenues - state	102,774	58,223	40,551	-	4,000	-	-
Charges for services	114,676	1,950	-	-	107,107	5,619	-
Investment income	3,429	1,825	581	218	593	206	6
Other	4,626	110	187	15	3,737	577	-
	<u>263,064</u>	<u>62,108</u>	<u>54,728</u>	<u>10,478</u>	<u>115,437</u>	<u>20,307</u>	<u>6</u>
Expenditures							
Current							
Public safety	76,307	-	-	-	76,307	-	-
Public works	108,951	48,927	60,024	-	-	-	-
Other governmental functions	18,280	-	-	1,111	-	17,167	2
Capital outlay	21,860	-	-	-	21,860	-	-
	<u>225,398</u>	<u>48,927</u>	<u>60,024</u>	<u>1,111</u>	<u>98,167</u>	<u>17,167</u>	<u>2</u>
Excess of revenues over (under) expenditures	37,666	13,181	(5,296)	9,367	17,270	3,140	4
Fund balances at April 1, 2003	<u>300,040</u>	<u>166,340</u>	<u>70,461</u>	<u>17,131</u>	<u>25,561</u>	<u>19,473</u>	<u>1,074</u>
Fund balances at March 31, 2004	<u>\$ 337,706</u>	<u>\$ 179,521</u>	<u>\$ 65,165</u>	<u>\$ 26,498</u>	<u>\$ 42,831</u>	<u>\$ 22,613</u>	<u>\$ 1,078</u>

Village of Pentwater
Debt Service Funds
COMBINING BALANCE SHEET
March 31, 2004

ASSETS

	Combined	Debt Service Fund	Debt Service LR/Marina Fund
Cash and investments	\$ 79,396	\$ 62,486	\$ 16,910
Due from other governmental units	<u>2,214</u>	<u>2,214</u>	<u>-</u>
	<u>\$ 81,610</u>	<u>\$ 64,700</u>	<u>\$ 16,910</u>

FUND BALANCES

Fund balances			
Reserved for debt service	\$ 81,610	\$ 64,700	\$ 16,910
	<u>\$ 81,610</u>	<u>\$ 64,700</u>	<u>\$ 16,910</u>

Village of Pentwater
Debt Service Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Year ended March 31, 2004

	Combined	Debt Service Fund	Debt Service LR/Marina Fund
Revenues			
Taxes	\$ 47,335	\$ 47,335	\$ -
Investment income	857	619	238
Other	384	384	-
	<u>48,576</u>	<u>48,338</u>	<u>238</u>
Expenditures			
Debt service			
Principal	30,000	30,000	-
Interest and fees	52,503	52,503	-
	<u>82,503</u>	<u>82,503</u>	<u>-</u>
Excess of revenues over (under) expenditures	(33,927)	(34,165)	238
Fund balances at April 1, 2003	115,537	98,865	16,672
Fund balances at March 31, 2004	<u>\$ 81,610</u>	<u>\$ 64,700</u>	<u>\$ 16,910</u>

Village of Pentwater
Enterprise Funds
COMBINING BALANCE SHEET
March 31, 2004

ASSETS

	Combined	Sewer	Water	Marina
CURRENT ASSETS				
Cash and investments	\$ 927,923	\$ 523,996	\$ 332,360	\$ 71,567
Accounts receivable	88,679	55,492	33,187	-
Inventories	20,336	-	20,336	-
Prepaid expenditures	1,406	583	641	182
Total current assets	<u>1,038,344</u>	<u>580,071</u>	<u>386,524</u>	<u>71,749</u>
RESTRICTED ASSETS	156,469	156,469	-	-
PROPERTY, PLANT AND EQUIPMENT—AT COST				
Land	254,190	2,196	-	251,994
Buildings and improvements	458,461	234,637	76,681	147,143
Equipment	82,052	46,555	35,497	-
Water and sewer system	3,381,506	2,621,332	760,174	-
Docks	183,403	-	-	183,403
Construction in progress	40,000	-	-	40,000
	<u>4,399,612</u>	<u>2,904,720</u>	<u>872,352</u>	<u>622,540</u>
Less accumulated depreciation	<u>(2,076,332)</u>	<u>(1,204,414)</u>	<u>(617,610)</u>	<u>(254,308)</u>
	<u>2,323,280</u>	<u>1,700,306</u>	<u>254,742</u>	<u>368,232</u>
	<u>\$ 3,518,093</u>	<u>\$ 2,436,846</u>	<u>\$ 641,266</u>	<u>\$ 439,981</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 20,000	\$ 20,000	\$ -	\$ -
Accounts payable	36,311	35,938	264	109
Accrued liabilities	6,054	1,976	3,462	616
Deferred revenue	37,395	-	-	37,395
Total current liabilities	<u>99,760</u>	<u>57,914</u>	<u>3,726</u>	<u>38,120</u>
LONG-TERM LIABILITIES				
Advances from other funds	198,207	-	142,886	55,321
Long-term debt, less current maturities	<u>460,000</u>	<u>460,000</u>	<u>142,886</u>	<u>55,321</u>
	<u>658,207</u>			
FUND EQUITY				
Contributed capital	1,349,801	1,249,526	13,107	87,168
Retained earnings				
Reserved	156,469	156,469	-	-
Unreserved	<u>1,253,856</u>	<u>512,937</u>	<u>481,547</u>	<u>259,372</u>
Total fund equity	<u>2,760,126</u>	<u>1,918,932</u>	<u>494,654</u>	<u>346,540</u>
	<u>\$ 3,518,093</u>	<u>\$ 2,436,846</u>	<u>\$ 641,266</u>	<u>\$ 439,981</u>

Village of Pentwater
Enterprise Funds
**COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS**
Year ended March 31, 2004

	Combined	Sewer	Water	Marina
Operating revenues				
Intergovernmental revenues—state	\$ 5,495	\$ -	\$ 5,495	\$ -
Charges for services	459,530	218,789	156,222	84,519
Other	6,427	270	5,866	291
	<u>471,452</u>	<u>219,059</u>	<u>167,583</u>	<u>84,810</u>
Operating expenses				
Administrative	93,312	27,600	65,712	-
Operations				
Pumping and treatment	147,431	123,866	23,565	-
Distribution and metering	11,928	-	11,928	-
Marina	88,215	-	-	88,215
Depreciation	104,684	67,035	30,332	7,317
	<u>445,570</u>	<u>218,501</u>	<u>131,537</u>	<u>95,532</u>
Operating income (loss)	25,882	558	36,046	(10,722)
Non-operating revenues (expenses)				
Investment income	12,990	7,975	4,320	695
Interest expense	<u>(39,521)</u>	<u>(31,875)</u>	<u>(5,543)</u>	<u>(2,103)</u>
	<u>(26,531)</u>	<u>(23,900)</u>	<u>(1,223)</u>	<u>(1,408)</u>
Income (loss) before operating transfers	(649)	(23,342)	34,823	(12,130)
Other financing sources				
Operating transfers in	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
NET INCOME (LOSS)	39,351	(23,342)	34,823	27,870
Depreciation charged to contributed capital	50,273	45,884	2,069	2,320
Retained earnings at April 1, 2003	<u>1,320,701</u>	<u>646,864</u>	<u>444,655</u>	<u>229,182</u>
Retained earnings at March 31, 2004	<u>\$ 1,410,325</u>	<u>\$ 669,406</u>	<u>\$ 481,547</u>	<u>\$ 259,372</u>

Village of Pentwater
Enterprise Funds
COMBINING STATEMENT OF CASH FLOWS
Year ended March 31, 2004

	Combined	Sewer	Water	Marina
Operating activities				
Operating income (loss)	\$ 25,882	\$ 558	\$ 36,046	\$ (10,722)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation and amortization	104,684	67,035	30,332	7,317
Funds from operations	<u>130,566</u>	<u>67,593</u>	<u>66,378</u>	<u>(3,405)</u>
(Increase) decrease in operating assets				
Accounts receivable	4,371	3,642	729	-
Due from other governmental units	3,294	-	-	3,294
Inventories	(3,459)	-	(3,459)	-
Prepaid expenditures	(290)	(105)	(14)	(171)
Increase (decrease) in operating liabilities				
Accounts payable	(4,902)	(3,399)	(1,529)	26
Accrued liabilities	(194)	(388)	(91)	285
Customer deposits	(1,350)	-	(1,350)	-
Deferred revenues	<u>(1,278)</u>	<u>-</u>	<u>-</u>	<u>(1,278)</u>
Net cash provided by (used for) operating activities	<u>126,758</u>	<u>67,343</u>	<u>60,664</u>	<u>(1,249)</u>
Capital and related financing activities				
Contributed capital	36,312	-	-	36,312
Decreases in advances from other funds	(8,481)	-	(5,715)	(2,766)
Principal payments on long-term debt	(20,000)	(20,000)	-	-
Property, plant, and equipment purchases	(79,607)	-	-	(79,607)
Interest expense	(39,521)	(31,875)	(5,543)	(2,103)
Operating transfers in	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Net cash used for capital and related financing activities	<u>(71,297)</u>	<u>(51,875)</u>	<u>(11,258)</u>	<u>(8,164)</u>
Investing activities				
Investment income	<u>12,990</u>	<u>7,975</u>	<u>4,320</u>	<u>695</u>
INCREASE (DECREASE) IN CASH AND INVESTMENTS	<u>68,451</u>	<u>23,443</u>	<u>53,726</u>	<u>(8,718)</u>
Cash and investments at April 1, 2003	<u>1,015,941</u>	<u>657,022</u>	<u>278,634</u>	<u>80,285</u>
Cash and investments at March 31, 2004	<u>\$ 1,084,392</u>	<u>\$ 680,465</u>	<u>\$ 332,360</u>	<u>\$ 71,567</u>
Cash and investments at March 31, 2004 consist of:				
Operating	\$ 927,923	\$ 523,996	\$ 332,360	\$ 71,567
Restricted	<u>156,469</u>	<u>156,469</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,084,392</u>	<u>\$ 680,465</u>	<u>\$ 332,360</u>	<u>\$ 71,567</u>

Village of Pentwater
Agency Fund
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2004

PAYROLL CLEARING FUND			
	Balance March 31, 2003	Additions	Deductions
Assets			
Cash and investments	\$ -	\$ 497,641	\$ 497,141
	\$ -	\$ 497,641	\$ 497,141
Liabilities			
Due to other governmental units	\$ -	\$ 497,641	\$ 497,141
	\$ -	\$ 497,641	\$ 497,141
			Balance March 31, 2004
			\$ 500
			\$ 500
			\$ 500
			\$ 500

BRICKLEY DeLONG
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

May 21, 2004

Village Manager and
Members of the Village Council
Village of Pentwater
Pentwater, Michigan

We have audited the general purpose financial statements of the Village of Pentwater as of and for the year ended March 31, 2004 and have issued our report thereon dated May 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Pentwater's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Pentwater's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over

BRICKLEY DeLONG

Village Manager and

Members of the Village Council

May 21, 2004

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Internal Control Over Financial Reporting—Continued

financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong PLLC